

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 /053 W
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FM AMEMBASSY TEL AVIV
TO SECSTATE WASHDC 7726

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E.O. 11652: N/A
TAGS: EFIN, IS
SUBJECT: GOI MODIFIES ITS DEVALUATION RULES

1. NO PUBLIC ANNOUNCEMENT HAS BEEN MADE BUT, ACCORDING TO FINANCE MINISTRY OFFICIALS, THE GOI HAS MODIFIED ITS RULES FOR DEVALUATION TO GIVE IT GREATER FLEXIBILITY IN MANAGING THE EXCHANGE RATE. EFFECTIVE IN JULY, A COMMITTEE OF THE MINISTER OF FINANCE AND MINISTER OF INDUSTRY, TRADE AND TOURISM, CAN AFTER CONSULTATION WITH THE GOVERNOR OF THE BOI CHANGE THE RATE UP TO 2 PERCENT AT A TIME AS OFTEN AS THE COMMITTEE CONSIDERS NECESSARY. LARGER CHANGES CAN BE MADE WITH CABINET AUTHORIZATION.

2. THE NEW SYSTEM IS A MODIFICATION OF THE PRESENT MINI-DEVALUATION POLICY FOLLOWED BY THE PREVIOUS GOVERNMENT SINCE JUNE 1975. WHEN FIRST INSTITUTED, THE COMMITTEE HAD THE POWER TO DEVALUE UP TO 2 PERCENT EACH 30 DAYS, BUT ANY UNUSED DEVALUATION IN A 30-DAY PERIOD COULD NOT BE CARRIED OVER AND USED LATER. THIS PROCEDURE WAS MODIFIED IN JULY 1976 TO PERMIT CARRYOVERS BUT LIMITING THE TOTAL DEVALUATION DURING FOUR-MONTH PERIODS TO 8 PERCENT. THE NEW RULES REMOVE
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THE 8 PERCENT LIMIT.

3. THE ECONOMIC ADVISOR TO THE MINISTER OF FINANCE HAS TOLD THE E/C COUNSELOR THAT THE NEW PROCEDURE IMPLIES NO CHANGE IN GOI INTENTIONS TO DEVALUE APPROXIMATELY 24-26 PERCENT IN 1977, SLIGHTLY MORE THAN THE OFFICIAL PROJECTED RATE OF INFLATION (28-30 PERCENT)

LESS THE WEIGHTED INFLATION IN THOSE COUNTRIES WITH
CURRENCIES REPRESENTED IN ISRAEL'S FOREIGN EXCHANGE
BASKET (DOLLARS, POUNDS STERLING, DMS, FRENCH
FRANCS AND DUTCH GUILDERS). IN THIS WAY ISRAEL HOPES
TO GIVE FURTHER INCENTIVE TO EXPORTS AND MAKE IMPORTS
SLIGHTLY MORE EXPENSIVE IN REAL TERMS. HE ADDED THAT
THE GREATER FLEXIBILITY IN THE NEW RULES I USEFUL IN
COMBATTING SPECULATION AND IN MEETING NEW CIRCUMSTANCES
(SUCH AS HIGHER THAN EXPECTED INFLATION)
SHOULD THEY ARISE.
LEWIS

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Message Attributes

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Control Number: n/a
Copy: SINGLE
Sent Date: 12-Aug-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
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Disposition History: n/a
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TAGS: EFIN, IS
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